



Auditor's Annual Report 2023/24

University Hospitals Dorset NHS Foundation Trust

—

June 2024

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This report is addressed to University Hospitals Dorset NHS Foundation Trust[(the Trust)]. We take no responsibility to any member of staff acting in their individual capacities, or to third parties.

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.



01 Executive Summary

Executive Summary

Purpose of the Auditor’s Annual Report

This Auditor’s Annual Report provides a summary of the findings and key issues arising from our 2023-24 audit of University Hospitals Dorset NHS Foundation Trust (the ‘Trust’). This report has been prepared in line with the requirements set out in the Code of Audit Practice published by the National Audit Office and is required to be published by the Trust alongside the annual report and accounts.

Our responsibilities

The statutory responsibilities and powers of appointed auditors are set out in the Local Audit and Accountability Act 2014. In line with this we provide conclusions on the following matters:



Accounts - We provide an opinion as to whether the accounts give a true and fair view of the financial position of the Trust and of its income and expenditure during the year. We confirm whether the accounts have been prepared in line with the Group Accounting Manual prepared by the Department of Health and Social Care (DHSC).



Annual report - We assess whether the annual report is consistent with our knowledge of the Trust. We perform testing of certain figures labelled in the remuneration report.



Value for money - We assess the arrangements in place for securing economy, efficiency and effectiveness (value for money) in the Trust’s use of resources and provide a summary of our findings in the commentary in this report. We are required to report if we have identified any significant weaknesses as a result of this work.



Other reporting - We may issue other reports where we determine that this is necessary in the public interest under the Local Audit and Accountability Act.

Findings

We have set out below a summary of the conclusions that we provided in respect of our responsibilities:

Accounts	We issued an unqualified opinion on the Trust’s accounts on 28 June 2024. This means that we believe the accounts give a true and fair view of the financial performance and position of the Trust. We have provided further details of the key risks we identified and our response on page 7.
Annual report	We did not identify any significant inconsistencies between the content of the annual report and our knowledge of the Trust. We confirmed that the Governance Statement had been prepared in line with the Department of Health and Social Care requirements.
Value for money	We are required to report if we identify any matters that indicate the Trust does not have sufficient arrangements to achieve value for money. We have nothing to report in this regard.
Other reporting	We did not consider it necessary to issue any other reports in the public interest.



02 Audit of the Financial Statements

Audit of the financial statements

KPMG provides an independent opinion on whether the Trust's financial statements:

- Give a true and fair view of the state of the Trust's affairs as at 31 March 2024 and of its income and expenditure for the year then ended;
- Have been properly prepared in accordance with the accounting policies directed by NHS England with the consent of the Secretary of State in February 2024 as being relevant to NHS Foundation Trusts and included in the Department of Health and Social Care Group Accounting Manual 2023/24; and
- Have been prepared in accordance with the requirements of the National Health Service Act 2006 (as amended).

We conducted our audit in accordance with International Standards on Auditing (UK) ("ISAs (UK)") and applicable law. We have fulfilled our ethical responsibilities under, and are independent of the Trust in accordance with, UK ethical requirements including the FRC Ethical Standard. We believe that the audit evidence we have obtained is a sufficient and appropriate basis for our opinion.

Audit opinion on the financial statements

We have issued an unqualified opinion on the Trust's financial statements before 28 June 2024.

The full opinion is included in the Trust's Annual Report and Accounts for 2023/24 which can be obtained from the Trust's website.

Further information on our audit of the financial statements is set out overleaf.

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
<p>Valuation of land and buildings</p> <p>Land and buildings are required to be held at fair value. As hospital buildings are specialised assets and there is not an active market for them they are usually valued on the basis of the cost to replace them with a 'modern equivalent asset'.</p>	<ul style="list-style-type: none"> — We critically assessed the independence, objectivity and expertise of the engaged valuers used in developing the valuation of the Trust's properties at 31 March 2024; — We compared the accuracy of the data provided to the valuers for the development of the valuation to underlying information, such as floor plans, and to previous valuations, challenging management where variances were identified; — We evaluated the design and implementation of controls in place for management to review the valuation and the appropriateness of assumptions used; — We performed inquiries of the valuers in order to verify the methodology that was used in preparing the valuation and whether it was consistent with the requirements of the RICS Red Book and the GAM; — We challenged key assumptions within the valuation, including the use of relevant indices and assumptions of how a modern equivalent asset would be developed, as part of our judgement particularly on obsolescence and BCIS; and — We challenged key assumptions and any changes made to the Trust's Modern Equivalent Asset model during the year and the impact on the overall revaluation. 	<p>We did not identify any material misstatements relating to this risk.</p> <p>We considered the estimate to be balanced based on the procedures performed due to the fact that the key assumptions applied by the valuer, such as BCIS indices, are consistent with our expectations and benchmarked data.</p>
<p>Fraudulent expenditure recognition</p> <p>Auditing standards suggest for public sector entities a rebuttable assumption that there is a risk expenditure is recognised inappropriately. We recognised this risk over manual (i.e. not system generated) accruals.</p>	<ul style="list-style-type: none"> — We evaluated the design and implementation of controls for developing manual expenditure accruals at the end of the year to verify that they have been completely recorded; — We inspected a sample of invoices of expenditure and cash payments, in the period around 31 March 2024, to determine whether expenditure had been recognised in the correct accounting period and whether accruals were complete; — We inspected material journals posted as part of the year end close procedures that decreased the level of expenditure (e.g. through accruals) recorded in order to critically assess whether there was an appropriate basis for posting the journal and the value could be agreed to supporting evidence; and — We performed a year-on-year comparison of a sample of the largest accruals in the prior year and current year and challenged management where the movement was not in line with our understanding of the entity. 	<p>We did not identify any material misstatements relating to this risk.</p>

Audit of the financial statements

The table below summarises the key risks that we identified to our audit opinion as part of our risk assessment and how we responded to these through our audit.

Risk	Procedures undertaken	Findings
<p><i>Management override of controls</i></p> <p>We are required by auditing standards to recognise the risk that management may use their authority to override the usual control environment.</p>	<ul style="list-style-type: none"> — In line with our methodology, we evaluated the design and implementation and, where appropriate, tested the operating effectiveness, of the controls in place for the approval of manual journals posted to the general ledger to ensure that they are appropriate; — We analysed all journals through the year and focus our testing on those with a higher risk, such as journals impacting expenditure recognition; — We assessed the appropriateness of changes compared to the prior year to the methods and underlying assumptions used to prepare accounting estimates; — We reviewed the appropriateness of the accounting for significant transactions that were outside the Trust’s normal course of business, or were otherwise unusual; and — We assessed the controls in place for the identification of related party relationships and tested the completeness of the related parties identified. We verified that these have been appropriately disclosed within the financial statements. 	<p>We did not identify any material misstatements relating to this risk.</p>

03 Value for Money

Value for Money

Introduction

We are required to consider whether the Trust has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources or 'value for money'. We consider whether there are sufficient arrangements in place for the Trust for the following criteria, as defined by the National Audit Office (NAO) in their Code of Audit Practice:



Financial sustainability: How the Trust plans and manages its resources to ensure it can continue to deliver its services.



Governance: How the Trust ensures that it makes informed decisions and properly manages its risks.



Improving economy, efficiency and effectiveness: How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

Approach

We undertake risk assessment procedures in order to assess whether there are any risks that value for money is not being achieved. This is prepared by considering the findings from other regulators and auditors, records from the organisation and performing procedures to assess the design of key systems at the organisation that give assurance over value for money.

Where a significant risk is identified we perform further procedures in order to consider whether there are significant weaknesses in the processes in place to achieve value for money.

We are required to report a summary of the work undertaken and the conclusions reached against each of the aforementioned reporting criteria in this Auditor's Annual Report. We do this as part of our commentary on VFM arrangements over the following pages.

We also make recommendations where we identify weaknesses in arrangements or other matters that require attention from the Trust.

Summary of findings

	Financial sustainability	Governance	Improving economy, efficiency and effectiveness
Commentary page reference	12-13	14	15
Identified risks of significant weakness?	Yes	No	No
Actual significant weakness identified?	No	No	No
2022-23 Findings	No significant weakness identified	No significant weakness identified	No significant weakness identified
Direction of travel	↑	↔	↔

Value for Money

NATIONAL CONTEXT

Financial performance

The 2023-24 financial year saw a significant increase in the level of financial pressures facing the NHS sector. This followed the end of Covid-19 related financing arrangements. The sector has faced cost pressures from a range of factors, most significantly the impacts of inflation felt during the year and the costs of industrial action.

At the end of January 2024 NHS England forecast that the NHS would record an overspend of £1.1bn against its agreed budgets. This came after additional funding had been made available earlier in the year to support with the costs of industrial action.

Operational performance

In January 2023 the Government announced five pledges for 2023, including reducing NHS waiting lists and the time people wait for procedures. Waiting lists had grown significantly during the Covid-19 pandemic as elective activity was postponed in order to prioritise the treatment of Covid patients and ensure safe working.

According to the Health Foundation the NHS waiting list had grown from 6.2 million patients at the beginning of 2022 to 7.2 million in January 2023. There had also been a significant increase in the number of patients with long waits. At the end of 2023 there remained 355,000 patients that had been waiting over a year for treatment. Income arrangements for the acute sector were revised in year to reimburse providers for elective activity based on the actual number of patients treated.

System working

The Health and Care Act 2022 formally established integrated care systems (ICSs), 42 partnerships within local geographies to promote closer working between the organisations responsible for healthcare delivery. Integrated Care Boards were formed on 1 July 2022, taking over commissioning responsibility from Clinical Commissioning Groups.

In their first full year of operation ICSs have continued to work to develop and embed governance arrangements both within the ICBs themselves and as systems.

LOCAL CONTEXT

The Trust provides acute services in Dorset, serving a population of nearly 800,000 with over 9,000 staff. The Trust is a member of Dorset ICS ('Our Dorset').

Financial performance

The Trust has delivered an adjusted financial performance surplus of £65k for the year ending 31 March 2024. The position was in line with the original plan submitted in April 2024.

Delivery of the financial plan remains a key challenge for the Trust, and this is achieved through a focus on cost improvement programmes ('CIP'). The Trust has struggled to achieve its planned efficiency savings for the year and, at year end, the Trust had achieved £18.6m of efficiency savings against a planned total of £33.3m.

System working

The Trust is part of a ICS with a challenging financial position. The ICS reported a current year deficit of £14.6 million, with an underlying deficit of over £160.2 million.

The Trust's 2024/25 operational budget and medium term financial plan was reviewed by the Board on 6 March 2024, with the plan reflecting a breakeven position. The plans include challenging cost improvement targets of ca. 5% for each provider Trust, which is greater than the CIP delivered in the current year. Overall, the ICS is forecasting a deficit of £21.0 million for 24/25.

New Hospital Programme

The Trust are in the process of undertaking several capital projects, including those related to the New Hospital Programme. This plan was re-phased in November 2023 to reflect the latest New Hospital Programme cashflow agreement.

Financial Sustainability

How the Trust plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

NHS organisations are continuing to operate in an extremely challenging environment. Focus has now shifted to dealing with the longer-term effects of the pandemic and recovery, such as clearing the elective backlog, and returning to “business as usual” activity levels. These challenges have been heightened by significant industrial action over recent months.

The initial financial plans were constructed based on appropriate local and national planning assumptions, with the involvement of budget holders in setting the financial plan and appropriate review and approval from the Finance and Performance Committee (FPC) and Trust Board. The process ensures operational and clinical engagement through the Care Group Triumvirate, with additional support and challenge through the Financial Planning Group and Trust Management Group. Alignment between finance, operational and workforce plans which are subsequently triangulated through the mandated NHSE/I planning returns.

As at the end of January 2024, the Trust reported a deficit of £15.9 million against a planned deficit of £2.6 million representing an adverse variance of £13.3 million. The Trust has struggled to achieve its planned efficiency savings for the year, with savings of £14.9 million achieved as at 31 January against a target £25.8 million. At year end, the Trust had achieved £18.6m of efficiency savings against a planned total of £33.3m. However, the Trust worked closely with the ICB and other partners in the system to mitigate the under-delivery in savings and reported a small surplus of £65k against its control total for the period.

The Trust has submitted a breakeven plan for 24/25 which includes a requirement for £42m of savings from cost improvement plans, representing a saving of 5%. Although plans to achieve this have not yet been fully developed, schemes that address £32m of the requirement have already been identified. The delivery of CIPS remains a significant focus in the Trust’s financial plans and whilst delivery remains a challenge, there is increased focus on this in the 2024/25 plan.

The Trust continues to work actively within the local Integrated Care System (ICS), having representation across all of its committees and working groups. As part of the ICS, UHD therefore shares responsibility for any deficit across the system.

Financial Sustainability

How the Trust plans and manages its resources to ensure it can continue to deliver its services.

We have considered the following in our work:

- How the Trust ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;
- How the Trust plans to bridge its funding gaps and identifies achievable savings;
- How the Trust plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities;
- How the Trust ensures that its financial plan is consistent with other plans such as workforce, capital, investment, and other operational planning which may include working with other local public bodies as part of a wider system; and
- How the Trust identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

UHD had a capital plan of £126.7 million for the financial year ending 31 March 2024. This plan was re-phased in November 2023 to reflect the latest New Hospital Programme cashflow agreement. At year end the Trust had delivered spend of £106 million.

Key financial and performance metrics:	2023-24 £'000	2022-23 £'000
Planned adjusted financial performance	£0	£0
Actual adjusted financial performance	£65	£188
Planned CIP as a % of spend		
- Recurrent	3.5%	3.7%
- Non-recurrent	0.5%	0.6%
Actual CIP as a % of spend		
- Recurrent	0.9%	1.0%
- Non-recurrent	1.3%	3.2%
Year-end cash position	£118,362	£103,400

Governance

How the Trust ensures that it makes informed decisions and properly manages its risks.

We have considered the following in our work:

- how the Trust monitors and assesses risk and how the body gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud;
- how the Trust approaches and carries out its annual budget setting process;
- how the Trust ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information (including non-financial information where appropriate); supports its statutory financial reporting requirements; and ensures corrective action is taken where needed, including in relation to significant partnerships;
- how the Trust ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency; and
- how the body monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of management or Board members' behaviour

Strategic risks are recorded and identified using the Board Assurance Framework (BAF), and any identified risks are reported to Board. The BAF is reviewed by the Audit Committee on a quarterly basis and at least bi-annually by the Board.

A 5x5 scoring matrix is used by the Trust to score operational risks. All risks rated 12+ are escalated to the Board of Directors and risk status reviewed monthly and are reported to the Audit Committee and risk controls and action plans discussed quarterly. Within the risk register, individual risks are scored, described and assigned an Executive Lead, who are responsible for providing a monthly update on risk status to the Quality Committee and Board of Directors.

Our review of the risk register found that this was sufficiently detailed to effectively manage key risks and we identified evidence of review within both the Audit Committee and Board throughout the year.

The Trust has numerous policies which clearly outline the expected behaviour of staff members in relation to areas such as Gifts and Hospitality, Whistleblowing Policy and Managing Conflicts of Interest. All policies have been approved in line with their review requirements. These policies continued to apply throughout the period.

Financial plans are approved by the Board, following review and sign off by budget holders, who monitor performance on a monthly basis, with results reported to the Finance and Performance Committee.

Key strategic decisions are made via the Trust's governance process. A scheme of delegation is in place which sets out where different decisions/approvals should take place. Key decisions are made through management and escalation processes for such matters at divisional operational, executive management and Board level. The Standing Financial Instructions and Scheme of Delegation provide guidance for authorisation limits and responsibility for decision making.

	2024	2023
Control deficiencies reported in the Annual Governance Statement	None that impact on VFM	None that impact on VFM
Head of Internal Audit Opinion	Moderate Assurance	Moderate Assurance
Oversight Framework segmentation	Segment 3	Segment 3

Improving economy, efficiency and effectiveness

How the Trust uses information about its costs and performance to improve the way it manages and delivers its services

We have considered the following in our work:

- how financial and performance information has been used to assess performance to identify areas for improvement;
- how the Trust evaluates the services it provides to assess performance and identify areas for improvement;
- how the Trust ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives; and
- where the Trust commissions or procures services, how it assesses whether it is realising the expected benefits.

The Trust forms part of the Dorset ICS and members of the Board and Leadership team are integrated within the governance of the system. This includes the Chief Financial Officer and Chief Operating Officer involvement in system decisions through the Operations and Finance Reference Group and Chief Executive involvement in the system Leadership Team. This ensures the Trust is integrated into key system decisions and feeds back to the Trust via relevant Board, Committee and operational and clinical meetings. Planning is performed at an ICS level, as well as considering the individual entities that make up the ICS, with the aim of achieving financial sustainability at a system level, although there also remains a focus on achieving financial balance at a organisational level.

The Trust CEO and Chair provide updates within their reports to Board with the ICS financial performance also being considered in the finance reports. Working within an ICS, the interaction between providers and other stakeholders is essential to ensure the appropriate operational and clinical flows across the system.

Operational Performance is monitored through the weekly Operational Performance Group and monthly through the Finance and Performance Committee, and bi-monthly through the Board. A detailed Integrated Performance Report has been developed to ensure all key metrics are reported through to the Board

System working is embedded as business as usual to enact the appropriate actions and change. This is underpinned by the Dorset Health System Collaborative Agreement, which in its agreement principles, states that all providers agree to work within the aggregate of organisational control totals.



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